



## *Statewide Accounting Policy & Procedure*

**Accounting Manual Reference:**

Section: Equity  
Sub-section: Reserved Fund Balance

**Effective Date:** 07/01/1999

**Revision Date:** 07/01/2004

**The GAAP guidance in this policy has been superseded by the fiscal year 2011 Accounting Directive that provides guidance for implementing GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Any guidance regarding the State's budgetary basis of accounting remains in force.**

**Georgia Laws**

OCGA 45-12-93: Revenue shortfall reserve...

**General Procedures**

In general, State organizations should record reserves in accordance with generally accepted accounting principles (GAAP). Significant variances between GAAP and the State's budgetary basis of accounting are described below.

From a GAAP perspective, the entire equity section for governmental funds, with respect to the fund financial statements, is disclosed as fund balance; and reserved fund balance applies only to these funds. Equity presentation on the government-wide financial statements and for proprietary and fiduciary funds is referred to as net assets. The term reserved should be limited to describing the portion of fund balance that is not yet spendable.

**Types of Reserves**

Reserved fund balance accounts may include, but are not limited to:

*Reserve for Encumbrances (328001)* - This reserve indicates that a portion of the fund balance has been segregated, upon vendor performance, for subsequent year expenditure. Under GAAP expenditures are not recorded for unexecuted contracts for goods and services. However, compliance with the State's budgetary basis of accounting would result in this reserve not being recorded since encumbrances are recorded as expenditures.

*Reserve for Debt Service (330001)* - This reserve should only be utilized for GAAP reporting purposes. This reserve denotes that resources have been restricted for subsequent year payment of general long-term debt principal and interest.

*Reserves for Inventories (332001), Prepaid Items (333001), Noncurrent Loans Receivable (334001) and Advances (336001)* - These reserves should be recorded to indicate that a portion of fund balance is not available for appropriation and expenditure at the balance sheet date. All of these reserves may appear on GAAP financial statements, however, for budgetary accounting purposes only the inventory reserve is applicable.

*Other Reserves (337xxx)* - This account encompasses two types of reserves: (1) various reserves established by the Constitution and by Acts of the General Assembly which are specific and may pertain only to certain State organizations, and (2) funds received through private donations, user fees, or private grants restricted for purposes as provided in written communications with the State organizations. An example of a reserve established by the Constitution and by Acts of the General Assembly is the Office of the State Treasurer's reserve for revenue shortfall as described in OCGA 45-12-93 (a) and (b). An example of a restricted private donation which should be reserved is the principal of a permanent fund.

#### **Approval of Reserves**

State organizations which are included in the Appropriations Act should submit a written request for approval to the Office of Planning and Budget (OPB) before reserving State or other funds. This request should provide a description of why the reserve is required, the amount of the reserve and documentation supporting the need for the reserve.

#### **Synopsis of Significant Variances between GAAP and Budget Basis**

Encumbrances are disclosed as a reserve since they are not recorded as expenditures. Reserves are recorded for prepaid items, noncurrent loans and for advances.